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BEFORE THE U.S. HOUSE COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT
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Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to be at today's hearing on crop insurance and risk management issues for U.S. agriculture. I currently serve as Chairperson of the Board of Directors (Board) of the Federal Crop Insurance Corporation (FCIC). Your invitation requested responses of the Department of Agriculture (USDA) to 25 issues related to crop insurance. The witness statement of Mr. Ross Davidson, Administrator of the Risk Management Agency (RMA), provides detailed responses to those issues. My brief remarks today are intended to provide an update on the activities of the Board since the Subcommittee's last hearing on May 22, 2003, the Board's actions in relation to issues raised for today's hearing.

Since the last hearing, the Board has held 11 meetings and taken 50 official actions. Among these actions, the Board sent 11 proposals for new insurance products and changes to existing insurance products submitted by the private sector under section 508(h) of the Federal Crop Insurance Act (Act) to actuarial and underwriting experts for review. The Board also evaluated other products developed under contracts managed by RMA.

Based upon the analysis and recommendations of these expert reviewers, recommendations from RMA staff, and the judgment of the Board, 15 program expansions and modifications were approved. Included in these actions were major expansions to the Adjusted Gross Revenue-Lite (AGR-Lite) plan of insurance, modifications and expansions of the Livestock Risk Protection (LRP) and the Livestock Gross Margin (LGM) plans of insurance for livestock, expansions of the blueberry and pecan pilot programs, and modifications and expansion of the Group Risk Income Protection plan. The Board also approved two new pilot programs, a sugar beet stage removal program and a silage sorghum program. One pilot program, Cost of Production, was disapproved due to actuarial and underwriting issues discovered during the expert review process. Four other new product submissions were withdrawn by the submitters, after various issues were discovered during the expert review process.

In addition to adding to and improving the portfolio of FCIC's risk management products, the Board has sought to improve the governance of FCIC by completing the first major restructuring of the delegations of authority for FCIC since the early 1990s. In an era where boards of directors are under increased scrutiny by their shareholders for management oversight, we are pleased to be able to report to the Subcommittee that the Board, in concert with the RMA management team and the Office of General Counsel, has conducted an exhaustive review of all statutory responsibilities and ensured they are properly delegated for action.

The revised delegations reflect all of the amendments to the Federal Crop Insurance Act since the early 1990s, including the Federal Crop Insurance Reform Act of 1994, the Agricultural Risk Protection Act of 2000 (ARPA) and the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill), and provides explicit guidance to FCIC on those activities delegated to the Manager and those reserved to the Board. This set of delegations will increase the efficiency and effectiveness of the operations of the FCIC by allowing Manager Davidson to deal directly on routine matters and bring only those issues reserved by law, or the judgment of the Board, to the Board for action.

In other official actions, the Board gave guidance to the Manager through a series of Sense of the Board resolutions on issues such as standards for reimbursement to outside entities for research and development costs and maintenance costs for submitted products under Section 508(h) of the Act, the suspension of sales for the LGM plan of insurance, and whether producers should be able to elect coverage levels by plan of insurance and practice. The Board also evaluated and authorized the reimbursement of research and development and maintenance costs to submitters of five 508(h) submitted insurance products.

Livestock Risk Protection Programs

An issue of concern to the Subcommittee has been the suspension of the two livestock insurance plans at the end of 2003. On December 17, 2003, the Board passed a Sense of the Board resolution that recommended that RMA suspend sales of LGM insurance for swine based on findings that the plan presented excessive risks to the FCIC. In response, RMA suspended sales on January 13, 2004. On December 24, 2003, RMA announced that applications for Specific Coverage Endorsements for Fed Cattle and Feeder Cattle under the LRP Insurance Policy were temporarily suspended following the discovery of a cow infected with bovine spongiform encephalopathy (BSE) in the State of Washington.

On April 6, the Board voted to permit reinstatement of LRP for fed and feeder cattle, and LGM for swine under certain conditions. RMA has worked with the owners of these products to implement certain modifications requested by the Board and each of the programs will be reissued this fall.

The Board is committed to providing the maximum possible continuity of livestock price risk protection to producers upon implementation of changes necessary to ensure actuarial, underwriting, and program integrity of the LRP and LGM products.

Because of the problems inherent in the livestock programs and the general public interest in determining the appropriate role of insurance and other risk management tools for livestock, the Board has requested that a review and analysis of each of the livestock programs be conducted one year after they have returned to the marketplace. Typically, crop pilot programs are reviewed after three years, but the continual nature of the sales cycles for these livestock programs should provide sufficient data to permit a useful review after one more year of experience.

2005 Standard Reinsurance Agreement

In 1991, the Board delegated to RMA the responsibility to renegotiate the SRA on its behalf. This delegation of authority still remains in effect. RMA completed renegotiation of the 2005 Standard Reinsurance Agreement (SRA), and all 14 currently reinsured companies signed the Agreement by the start of the 2005 reinsurance year on July 1, 2004. Throughout the negotiating process, RMA and Administration officials provided the Board with regular updates. The Board provided guidance and opinions when appropriate in order to aid RMA in the negotiation process. The renegotiation of the SRA was very complex, requiring a balancing of the interests of crop insurance policyholders, reinsured companies and agents, and American taxpayers.

AGR-Lite

AGR-Lite is a whole-farm risk management product owned by the Pennsylvania Department of Agriculture. On August 1, 2003, the Board voted to expand the program to reach all counties in Connecticut, Delaware, Maine, Massachusetts, New Hampshire, Vermont, and Rhode Island, and selected counties in Maryland, New Jersey, New York, and West Virginia, in addition to Pennsylvania. Additional modifications were also approved for the program in all states, including Pennsylvania. These modifications qualify more livestock and organic and small-to-medium size producers in these states than are currently available for coverage under

FCIC's Adjusted Gross Revenue plan of insurance. On May 6, 2004, the Board approved availability of AGR-Lite in all counties in Alaska, Idaho, North Carolina, Oregon, and Washington, beginning in the 2005 crop year. AGR-Lite now is available in 17 States and covers farmers' and ranchers' adjusted gross revenue from the whole farm based on five years of Federal tax return data.

The Board recognizes that there is great interest in expanding this program to additional states. Since AGR-Lite is a program owned and maintained by the Pennsylvania Department of Agriculture, expansion to additional states requires the Pennsylvania Department of Agriculture to submit a request to the Board with the appropriate ratings data and other required information. Those interested in making AGR-Lite available in their State should contact and work with the Pennsylvania Department of Agriculture. The Pennsylvania Department of Agriculture supplies interested parties with the requirements for expansion and has worked with many states in accomplishing expansion to their areas.

Approval of New Products

The Board retains the authority for approval of all pilot programs developed by FCIC under contract, as well as those policies or plans of insurance submitted to FCIC under the authority of section 508(h) of the Act. The Board spends a large portion of its time in the review and analysis of these products to determine whether the interests of producers are protected and the products are actuarially sound. In addition to the actions taken over the past year, the Board expects a considerable amount of such activity in the future. Contract awards for research and development of new pasture and rangeland risk management tools are nearing completion, and a solicitation for proposed solutions to the declining yield issue has been released. RMA is also overseeing contract research and development on over 20 additional commodities to determine whether new insurance programs are feasible in areas including specialty crops, livestock, and aquaculture, with a focus on underserved areas and crops.

The normal cycle for a pilot program is a lengthy process that can take several years for complete development into a permanent program. The cycle includes development, pilot testing, and evaluation, followed by the rule making process in the Federal Register. In addition to the products developed under contract for FCIC, the Board accepts product submissions from outside entities at the beginning of each quarter. We anticipate that innovative products submitted under section 508(h) of the Act will continue to come to FCIC from the private sector in the coming years. Regardless of the source of the proposed product, the Board is responsible for ensuring before approval that each product is actuarially sound, is marketable to the majority of farmers of the covered commodity, and does not negatively affect program integrity or the delivery system.

The Board is fulfilling, and will continue to fulfill, its statutory responsibilities, including the provision of oversight, guidance and direction to FCIC. The Board is committed to strengthening the nation's crop insurance and other risk management programs and the regulatory functions of FCIC, including those conducted by RMA on FCIC's behalf. All of the Board members are pleased to have the opportunity to serve American agriculture and all are working diligently to ensure this crucial part of the farm safety net functions as efficiently and as effectively as possible.

That completes my remarks. Thank you.